

VZCZCXRO1357
RR RUEHCN RUEHGH RUEHVC
DE RUEHBJ #0684/01 0760856
ZNR UUUUU ZZH
R 170856Z MAR 09
FM AMEMBASSY BEIJING
TO RUEHC/SECSTATE WASHDC 2912
INFO RUEHOO/CHINA POSTS COLLECTIVE
RUEHSJ/AMEMBASSY SAN JOSE 0116
RUCPDO/DEPT OF COMMERCE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RHEHNSC/NSC WASHDC

UNCLAS SECTION 01 OF 02 BEIJING 000684

STATE PASS USTR
DEPT FOR EEB/TPP/BA, EAP/CM, EAP/EP, WHA/CEN, WHA/EPSC

SIPDIS
SENSITIVE

E.O. 12958: N/A
TAGS: [PREL](#) [ETRD](#) [EINV](#) [CH](#) [CR](#)
SUBJECT: CHINA CEMENTS TIES WITH COSTA RICA THROUGH TRADE

REF: 08 SAN JOSE 969

Summary

1. (SBU) Costa Rica is reaping economic benefits from China for its 2007 decision to switch diplomatic recognition from Taipei to Beijing, including talks on a bilateral free trade agreement (FTA) announced during President Hu's 2008 visit and the planned construction of a new soccer stadium. Costa Rica's trade with China is complementary, with microchips leading the way and hopes for burgeoning Chinese demand in high-end coffee. Costa Rican diplomats believe the FTA will face little resistance from either congress or civil society, and will provide China a trade platform in the region. End summary.

Switching from Taipei to Beijing Opens Door to FTA

2. (SBU) "Fundamental realism" drove the decision to switch diplomatic recognition from Taipei to Beijing, Costa Rican Commercial Counselor Alvaro Cedeno told EmbOffs January 22. Such a shift opened the door to enhanced economic ties, most clearly in the form of the announcement of FTA negotiations during President Hu Jintao's November 2008 visit (reftel). The GOCR wants to expand access to the Chinese market for primary Costa Rican exports including high-end coffee, agricultural products, IT products and medical equipment. China is also building a PRC-funded, USD 75 million sports stadium in San Jose that will seat 35,000 spectators. An Anhui-based construction company has begun the work, and will provide the project's engineers and laborers, according to Costa Rican embassy officials.

Costa Rica's Pro-trade Policy Gaining Support

3. (SBU) The GOCR is pursuing an aggressive global trade agenda. A China FTA, if concluded, would add to Costa Rica's existing free trade partners, including the United States, Mexico and Central America, the Dominican Republic, Chile, Canada, South Korea and Singapore. The scope of the China-Costa Rica FTA, much of will negotiated on the basis of the China-Peru FTA model, includes trade in goods (see para 2 above for sectors of particular interest to Costa Rica), rules of origin, customs procedures, sanitary and phyto-sanitary measures, technical barriers to trade, trade remedies, services, intellectual property rights, and dispute resolution. The FTA will build on a rapidly growing trade relationship between the two countries, Cedeno said. Six rounds of talks are planned, the first of which was held in January 2009.

The second round is scheduled to take place in China April 14-17. With regard to eventual prospects for ratification, Costa Rican Consul Roberto Cespedes said the deal will likely face little

opposition from Costa Rican policymakers and civil society, who have already been intensively exposed to the pro- and con- trade arguments as a result of the divisive debate over ratification of the U.S. free trade agreement with Central America and the Dominican Republic (CAFTA-DR). He added that Chinese goods, food, and culture have been in Costa Rica for many years, further alleviating people's concerns about expanded bilateral trade.

More Complementary Economies

14. (SBU) The complementary nature of the Costa Rican and Chinese economies will facilitate ratification of the FTA, according to Costa Rican diplomats. Unlike Mexico and other Central American countries that have lost substantial market share to Chinese products (particularly in the textile and apparel sectors) both at home and in third-country markets like the United States, Costa Rica has remained relatively unaffected by the huge surge in China's global exports. Costa Rica's main export industries are in higher-value added sectors like medical devices and IT products, in which the Chinese compete less. In fact, semi-conductor chips (most of which are made at the large Intel plant in Costa Rica) currently comprise around 80% of Costa Rica's exports to China. Still, China's share of the electronics and IT sectors has grown rapidly, and our Costa Rican counterparts noted that Intel plans to establish a new chip plant in Dalian which could affect Costa Rica's main export. Another product Costa Rica hopes to exploit is coffee, but Cespedes and Cedeno said it will take some time to foster Chinese consumers' appreciation for the premium-quality Arabica beans that Costa Rica specializes in growing. With regard to another famous Costa Rican export, bananas, they said that it was simply not feasible to export such

BEIJING 00000684 002 OF 002

a perishable item all the way to China.

Not Much FDI, but a Confucius Institute

15. (SBU) In addition to expanded trade engagement, Cedeno said Costa Rica is interested in attracting Chinese tourism and investment. Due to the country's small size and low profile in China, however, there has been very little of either to date, though the conclusion of an FTA may help change that. Cespedes mentioned that China, together with the University of Costa Rica, recently inaugurated a Confucius Institute to promote Chinese culture.

Comment

16. (SBU) The tiny Costa Rican market offers relatively little to China in terms of export opportunities. Though Beijing and Taipei seem to have an undeclared diplomatic ceasefire since the inauguration of Ma Ying-jeou under which the two sides are refraining from trying to flip recognition, it is likely no coincidence that China's Costa Rican charm offensive (Hu visit, FTA talks, soccer stadium, Confucius Institute) is aimed at the only Central American country with which Beijing has official ties.

End comment.

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